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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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Warren D. Hannah
Director - Federal Regulatory Relations
Local Telecommunications Division

DOCKET FILE COPY ORIGINAL

EX PARTE

March 29, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

RE: In the Matter of Price Cap Performance Review for Local
Exchange Carriers, CC Docket No. 94-1; Treatment of
Operator Services Under Price Cap Regulation, CC Docket
No. 93-124; Revisions to Price Cap Rules for AT&T, CC
Docket No. 93-197

Dear Mr. Caton:

Today, the attached letter was delivered to Ms. Regina M. Keeney, Chief, of the Commission's Common Carrier Bureau. Mr. Sykes' letter mentions information previously placed on the record by Sprint in the Commission's Second Further Notice of Proposed Rulemaking in the above referenced matter.

Sprint requests the attached letter be made a part of the record in this matter. Two copies of this letter in accordance with Section 1.1206(a)(1) is provided for this purpose. If you have any questions, please feel free to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Warren D. Hannah".

Warren D. Hannah

Attachment

c: Ms. Regina M. Keeney, FCC, Washington, D.C.
Mr. Alan J. Sykes, Sprint, Westwood, KS



2330 Shawnee Mission Parkway
Westwood, KS 66205
Telephone: (913) 624-2475
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Alan J. Sykes
Vice President
Revenues

March 29, 1996

**Ms. Regina M. Keeney, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554**

RE: In the Matter of 1996 Annual Access Charge Tariff Filings

Dear Ms. Keeney:

On April 2, 1996, the Sprint local exchange companies (United and Centel) will file their annual access tariff revisions under the Commission's price cap rules. As we've previously informed our interexchange carrier customers, the revisions propose to increase interstate access rates by approximately \$88 million annually. As explained in more detail below, the increase results largely from reversing the extraordinary sharing obligations which the Sprint local exchange companies undertook during the 1995 tariff year. Even with the proposed increase, our proposed rates will be more than five percent lower than they were less than a year ago in July, 1995.

Sprint is very sensitive to the perceptions that this seemingly anomalous proposed increase may create at the Commission. Accordingly Sprint is taking this opportunity to straightforwardly address those concerns.

First, the proposed rate increases are not the evidence of any failure of the Commission's price cap access charge regime; they are a confirmation of its success. In 1995, the Sprint companies reduced their access rates by about \$125 million on an annualized basis, an almost 20% reduction in the rates charged to their carrier customers. This \$125 million reduction came about through the combination of two major rate reductions: the 1995 annual filing and a subsequent voluntary filing by the Sprint companies to flow-through 1995 sharing obligations, in advance of their actually being required to do so under the Commission's price cap rules.

Ms. Regina M. Keeney
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The Sprint companies' 1995 annual price cap filing included price cap formula reductions of \$40 million, plus a \$63 million rate reduction to flow-through 1994 sharing obligations. (The 1995 filing also reversed a \$20 million 1993 sharing obligation.) The Sprint companies further reduced their interstate access rates by some \$42 million in an October, 1995 voluntary filing which flowed-through 1995 sharing obligations in advance of the 1996 annual filing. The rate increases now proposed are the result of the one-time reversal of two years' worth of sharing obligations that have been passed through by the Sprint companies as rate decreases in one year, in full and in advance of their actually being required.

As noted above, even with Sprint's proposed rate increases, the access rates that carrier customers will pay to the Sprint companies are over five percent lower than they were less than one year ago in July, 1995. In the highly competitive interexchange market, Sprint maintains that end user customers have received and will continue to receive the benefits of these access rate reductions.

Second, these proposed rate increases are not evidence of the need for a higher "productivity factor" for price cap companies. All of the Sprint companies chose the highest productivity option under the Commission's current price cap plan. This choice was made on the faith that the economic incentives provided by the Commission's price cap plan would accrue to price cap companies for their achievement of productivity gains in excess of the industry average. The increased efficiencies that have been brought to bear by the Sprint companies are a direct result of the incentives provided under the Commission's and the states' price cap plans. Arguments that Sprint's proposed rate increases, which are the result of the reversal of extraordinary prior period sharing, are evidence of the need for a higher productivity factor are on their face self-serving. Such arguments are also contrary to the objective of the price cap plan to incent local exchange companies to increase efficiency. Moreover, a review of the productivity of price cap companies is the subject of a separate proceeding now before the Commission. Sprint maintains that its comments and those of others in that proceeding should stand or fall on their own merit.

Finally, Sprint points out that the Commission's current pricing rules do not provide adequate flexibility to permit price cap companies to more rationally and efficiently price their services, even in an emerging competitive market. The current rules generally allow only across-the-board changes to access prices, such as that proposed by the Sprint companies in their 1996 filing, rather than permitting more economically efficient pricing based upon underlying cost characteristics of less aggregated geographic markets. In that regard, Sprint's support of the need for immediate implementation of zone density pricing is clearly established before the Commission. Sprint acknowledges that changes to the Commission's price cap pricing rules are also under current consideration by the Commission, and that its comments and those of others in that proceeding should likewise stand or fall on their own merit.

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Sprint has always trusted in the Commission's balanced and objective assessment of difficult issues. Sprint trusts that the Commission will bring that same balance and objectivity to the review of the Sprint companies' annual access charge tariff filing.

Sincerely,


Alan J. Sykes

AJS/ss

c: The Honorable Reed E. Hundt, Chairman
Commissioner James H. Quello
Commissioner Andrew C. Barrett
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Mr. John Nakahata, Legal Assistant, Office of the Chairman
Ms. Lauren Belvin, Senior Legal Advisor, Office of Commissioner Quello
Mr. Todd Silbergeld, Legal Advisor, Office of Commissioner Barrett
Mr. Daniel Gonzalez, Legal Advisor, Office of Commissioner Chong
Mr. James Casserly, Senior Legal Advisor, Office of Commissioner Ness
Mr. Richard Metzger, Jr., Deputy Bureau Chief, Common Carrier Bureau
Mr. Mark Uretsky, Chief Economists, Common Carrier Bureau
Mr. Jim Schlichting, Chief, Tariff Division, Common Carrier Bureau